



## VAT and customs beyond Brexit

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## 1. Introduction



### **Trading with the UK beyond Brexit**

The UK has left the EU. The 24<sup>th</sup> of December 2020, the European Commission and the British Government have ended with a deal on the future relationship between the EU and the United Kingdom. The agreement has entered into force 1<sup>st</sup> of January 2021.

The trade and cooperation agreement is important to your business when you trade with the UK, both in terms of VAT and customs.

In the following, we give you an overview of the VAT and customs issues that you and your company must be aware of when you trade with the UK beyond Brexit.



## 2. Purchases from the UK

### Customs

After Brexit, the UK is no longer part of the EU's customs union. This means that all goods traded between the EU and the UK must be customs cleared.

#### **Your company must be registered as an importer**

If your company imports goods from the UK, and you have not imported goods from countries outside the EU before, your company must be registered with the Danish Business Authority on [www.virk.dk](http://www.virk.dk) as an importer. This registration is necessary to be able to import goods and make import declarations.

When your company imports goods from the UK, an import declaration must be prepared and import VAT settled.

#### **Security for customs**

In most cases, your company must provide security for the customs duty that the company must pay for goods it imports into Denmark from a country outside the EU. You can apply for participation in a collateral scheme.

There are several options for providing security, including:

- The so-called "SKAT's security scheme", where the company provides security for the customs through a credit scheme that is paid to once a month.
- Other scheme where the company provides collateral through cash deposits or bank guarantees.

#### **Custom duty relief**

If it can be documented that the goods originate from the UK, a tariff reduction can be obtained.

The goods must be either fully manufactured or sufficiently processed. It is important that you as an importer can document that the product originates in the UK. This can be documented by having the exporter enclosing a proof of origin with the goods.

If a tariff reduction cannot be achieved, the imported goods will be subject to customs duties.

To check if it is possible to obtain a tariff reduction on a specific item, it is possible to find the answer in the [Customs Tariff](#).

## 2. Purchases from the UK

### VAT

When the UK is no longer part of the EU, it means that when purchasing goods and services from the UK, it must be treated as purchases of goods and services from third countries.

#### Purchases of goods from the UK

When importing goods from countries outside the EU, the company will receive an invoice without VAT from the seller in the UK.

Your company must pay import VAT (25%) of its importation of goods into the EU.

Import VAT must be calculated and paid on all import of goods.

#### VAT return

The import VAT must be paid via the company's VAT return in the field "VAT on purchases of goods abroad (both the EU and third countries)".

If the goods are used for VAT-liable activities, the company can deduct the calculated VAT amount as input VAT.

The value of the purchase is not to be reported in any of the boxes under "Supplemental information" on the VAT return. It is important when it comes to VAT reconciliation that "Box A - goods" can not always be reconciled with the field "VAT on purchases of goods abroad" by dividing "Box A - goods" by 4, because the import VAT is also stated in the field "VAT on purchases of goods abroad" - therefore the import VAT must be excluded in connection with VAT reconciliations between the boxes and the VAT fields.





## 2. Purchases from the UK

### VAT

#### Purchases of services from the UK

As a general rule, your company will receive an invoice without VAT from the seller in the UK when the seller is in possession of the Danish company's VAT number.

Your company must calculate 25% VAT (import VAT) on the purchase and include VAT and the value of services in the VAT return.

However, there are exceptions to this. If the service is subject to the special rules where the utilization of the service is crucial. Services which are considered used/utilized in the UK (or another non-EU country), are not subject to the rules on import VAT.

Such services could be; advertising services, consultancy services, hiring out labor, telecommunications services.

The special rules on whether a service should be considered used in a country outside the EU will not be described in more detail.

#### VAT return

As mentioned, you must calculate 25% VAT of the value of the service. The VAT must be reported on the VAT return in the box under sales VAT - "VAT on services purchased abroad subject to a reverse charge".

You do not have to report the value of the purchase in any of the boxes under "Supplemental information" on the VAT return. It is important when it comes to VAT reconciliations that "Box A – services" is not always with the field "VAT on services purchased abroad" multiplied by 4, as services from third countries are also stated in the field - therefore the VAT on services from third countries must be neutralized when reconciling VAT between the boxes and the VAT fields.

To the extent that the service is used for activities subject to VAT, the company may deduct the calculated VAT amount as input VAT.



## 3. Sales to the UK

### Customs

After Brexit, the UK is no longer part of the EU's customs union. This means that all goods traded between the EU and the UK must be customs cleared.

#### **Your company must be registered as an importer**

If your company export goods to the UK, and you have not exported goods to countries outside the EU before, your company must be registered with the Danish Business Authority at [www.virk.dk](http://www.virk.dk) as an exporter.

When you are registered with the Danish Business Authority, you will also receive an EORI number. You must have this number when exporting goods to countries outside the EU, including the UK.

The registration is necessary to be able to export and make export declarations.

#### **Export declaration**

Goods to be exported to a country outside the EU must be specified in the e-Export system. You can do it yourself or have a freight forwarder or carrier do it for you.

Please contact us if you want to register in the e-Export system.

#### **Custom duty relief**

In the same way that Danish companies can have a tariff reduction, UK companies also have this option.

If it can be documented that the goods originate in the EU, a tariff reduction can be obtained. The goods must be either fully manufactured or sufficiently worked or processed.

As an exporter, you are responsible for preparing documentation that your product meets the requirements of preferential origin in the trade agreement between the EU and the UK. You do this by preparing and enclosing a proof of origin to the importer of the goods.

When trading with the UK, your company must be registered in the REX system in order to be able to issue a proof of origin upon export, if the total value of the exported goods exceeds 6,000 euros. Please contact us if you need assistance with the registration in the REX system.

If a tariff reduction cannot be achieved, the exported goods will be subject to customs duties in the UK.

### 3. Sales to the UK



#### VAT

When the UK is no longer part of the EU, it means that when purchasing goods and services from the UK, it must be treated as purchases of goods and services from third countries.

##### Sales of goods to the UK

Sales of goods to countries outside the EU are exempt from VAT.

This applies regardless of whether the buyer is a company or a private individual. Thus, you can issue an invoice without calculating Danish VAT on sales to the UK, as the product leaves the EU. When selling goods to countries outside the EU, a declaration that document that the goods has left the EU has to be made.

However, please be aware that the sales of goods to private customers might be subject to the rules for distance sales. Read more in section 4 "Distance sales".

##### Documentation for the transport

As for sending goods to other EU countries, it is the seller who must be able to document that the goods left the EU. This could be documented with a copy of the consignment note from the transport company or freight forwarder, etc.

##### VAT return

The value of the sales of goods to the UK must be reported on the VAT return in "Box C - value of other goods and services sold exclusive of VAT in Denmark, other EU countries and countries outside the EU".



### 3. Sales to the UK

#### VAT

##### Sales of services to the UK

As a rule, VAT is not to be settled on the sale of services to the UK, as the service is considered exported from the EU.

As for purchase of services, exceptions to this apply If the service is subject to the special rules where the utilization of the service is crucial. Services which are considered used/utilized in Denmark, are subject to Danish VAT.

Such services could be; advertising services, consultancy services, hiring out labor, telecommunications services etc.

If the service is considered used / utilized in Denmark, Danish VAT must be settled in connection with the sale. The special rules on whether a service should be considered utilized in a country outside the EU will not be described in more detail.

##### Invoice requirements

When a sale not subject to VAT takes place, you are not obliged to state a VAT number or other endorsement, as the service and the sale are considered delivered outside of EU's VAT area.

##### VAT return

The seller must report the value of sales of services the UK on the VAT return's "Box C".



## 4. Distance sales

When the UK leaves the EU, new and different rules will apply on sales to private individuals in the UK.

The new rules will mean, that distinction must be made between the sale of goods with a value of more or less than GBP 135. This corresponds to approx. 1,110 DKK.

If the delivery contains several items, it is the sum of the value of the items that is decisive.

### **Sales to private individuals of less than 135 GBP**

Danish companies must register for VAT in the UK if only a single sale to a private individual has a value of less than GBP 135. Thus, a de minimis limit no longer exist.

To ensure that the new rules are complied with, all deliveries covered by the rules must be accompanied by an invoice with local VAT and registration information - either digitally or in paper form.

With the introduction of the new rules, the previous rules on imports free of VAT into the UK of goods of lesser value are repealed.

### **Sales to private individuals exceeding 135 GBP**

For deliveries with a value above GBP 135, customs duties and import VAT must be paid when the goods are imported into the UK.

As sellers, Danish companies can register for VAT, import and export, so that they can collect and settle VAT and customs duties on behalf of the tax authorities in the UK.

Alternatively, the customer must pay VAT, customs and duties to the tax authorities - either with the help of a freight forwarder or via postal service.

If the sales from a Danish company are through an online marketplace, it will be the person responsible for this marketplace who will also be responsible for settling with the British tax authorities.

## 5. Refund of VAT paid in the UK

### **Applying for a refund of VAT**

As was the case before Brexit, it will be possible to apply for a VAT refund for expenses incurred in the UK.

For example, there may be costs incurred for:

- Fuel
- Car rental
- Hotel
- Restaurant

### **Refund of VAT paid in 2020**

In the transition period from 1 February 2020 to 31 December 2020, the rules for trading between Denmark and the UK will not be changed. Thus, your company can basically apply for a VAT refund from the UK for purchases in 2020 via E-Tax (Tast Selv Erhverv).

However, the Danish Tax Authorities recommends that you apply for a VAT refund as soon as possible, as there may be uncertainty about responsibilities and obligations in connection with the transition period and after the transition period.

### **VAT refund after 1st of January 2021**

After 1<sup>st</sup> of January 2021, you can apply digitally in the UK until 31 March 2021.

Subsequently, the Danish Tax Authorities recommends that you wait to apply for a VAT refund until the UK confirm which process to use.

It is the UK's internal VAT rules which determine whether your business can get a VAT refund. If the supplier has charged VAT by mistake, you should contact the supplier.





## 6. Ecovis can help you

If your company trades with the UK and you are interested in hearing more about how Ecovis Denmark can advise you on the changes as a result of Brexit, please contact:



**Kurt Bülow**  
State Authorised Public Accountant,  
Partner  
[Kurt.bulow@ecovis.dk](mailto:Kurt.bulow@ecovis.dk)



**Jerrik Olsen**  
State Authorised Public Accountant,  
Partner  
[Jerrik.olsen@ecovis.dk](mailto:Jerrik.olsen@ecovis.dk)

ECOVIS Danmark  
statsautoriseret revisionsinteressentskab  
Vendersgade 28 st. th.  
DK – 1363 København K  
[Google Maps](#)  
Nørregade 6b  
DK- 4100 Ringsted  
[Google Maps](#)  
Phone: +45 5761-4540  
[danmark@ecovis.com](mailto:danmark@ecovis.com)  
<https://www.ecovis.com/denmark>